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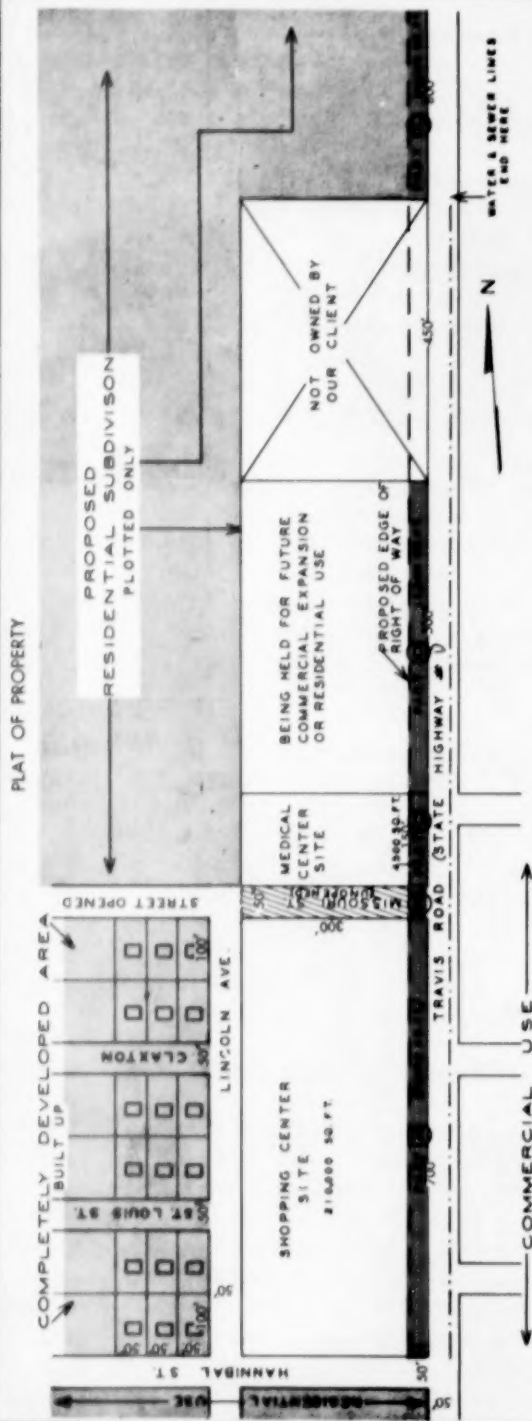
A FAIR COMPENSABLE AWARD FOR RIGHT-OF-WAY PURPOSES

SEVERAL years ago, a builder who owned a large tract of ground asked us to make a shopping center study for him to determine the economic feasibility of developing a shopping center on a portion of the tract. Upon receiving the commission, we proceeded with an economic survey of the area in an attempt to determine the demand and supply for shopping center goods. Our initial survey revealed that this site was at the fringe of a suburban area that was served entirely by an old town's business district. This downtown district had grown like Topsy many years ago and was completely built up with stores along the town's main street. Parking was totally inadequate and the district was hemmed in.

Recent growth in the community has been southward because of swamps and hilly terrain that surround it on the three other sides. The developer that commissioned us was mass building the area surrounding the proposed shopping center site. As a consequence, the subject site could enjoy a good walk-in trade which is essential to maintain an even flow of shoppers at other than Saturday and evening hours. The developer and builder had extensive plans for building 600 more homes in the area. He was without competition and the demand for the new homes appeared to be great. Practically every home in the subdivision had been sold long before completion. This indicated the probable success of his future residential development, which in turn would increase the walk-in trade.

A survey revealed practically no competition except by the downtown merchants. Furthermore, the center's site was on a State highway serving a large trade area presently without access to modern shopping facilities with adequate parking. Because of the potential purchasing power and the lack of competition as well as the strategic location of the site, we recommended its development.

When the first publicity was given to the proposed development, State Highway Department representatives called on the owner and stated that in order to save the taxpayers money and to avoid later difficulty in securing additional right-of-way for their future highway, they suggested purchasing frontage along his property in order to widen the existing right-of-way. This was agreeable to both parties. The main difficulty appeared when the question of value was encountered. The owner claimed that his financing agency had placed a value on his frontage



for commercial purposes of \$240 per front foot, or 80¢ per square foot for the 300-foot depth of the site. Residential land has been selling in the adjacent subdivision and along the highway for \$35 per foot, or 35¢ per square foot for lots having 100-foot depth. Applying 80¢ per square foot for the land taken from the shopping center site would result in a cost of \$16,800. The land proposed to be taken from the residential sections and future commercial sites, valued at 35¢ per square foot, would amount to \$6,825. For the frontage along the highway in an area that was not provided with water and sewers the owner was willing to accept \$750, or the equivalent of \$1,500 per acre. In addition, he expected to add the cost of our appraisal fee, and architectural and engineering fees that were

required to redesign his tract, which amounted to \$2,650. These items totaled over \$27,000.

The Highway Department, on the other hand, was willing to pay only the equivalent per acre that the owner had paid for his ground several years ago before any development took place, plus any reasonable charges for reengineering and redesigning that would be required. The land was acquired by the owner for some price under \$1,500 per acre. The acquisition costs, as we explained to the owner and to the Highway Department, did not and will not represent value. The Highway Department's idea of a fair value for the 1.6 acres was probably in the neighborhood of less than \$3,000. Here were two interested parties attempting

to get together to consummate a friendly deal with ideas of value which were far apart. Both had reasonable estimates, but it was up to us as appraisers to estimate the fair value to both parties for the ground being transferred.

In order to eliminate the possibility of identification of the property, we have changed the names of the streets involved and substituted hypothetical dimensions which will also serve to minimize unnecessary complexities of the problem. In this way the basic factual conditions may be presented without long explanations as to the treatment involved. The plat on page 176 shows the land involved in the transfer as well as the streets, highway, and the developments surrounding the area involved. Basically, the problem consists of the fair valuation of parts A, B, C, D, and E which are proposed for future right-of-way purposes, plus the additional costs of necessary services created by the transfer.

In appraising part A, the additional right-of-way that will be taken from the shopping center site, we considered the part taken as being a portion of a site that is limited in size. Travis Road (State Highway 1) to the east, Hannibal Street to the south, and Lincoln Avenue to the west limit the expansion of the shopping center in those directions. Missouri Street, a platted but unopened street, limits expansion in a northwardly direction. It was thought that Missouri Street could be moved northward to include more land within the shopping center to compensate for the loss in area suffered by the site by the taking. However, in our opinion, too much traffic would be thrown on Lincoln Avenue as St. Louis Street and Claxton Street serving the subdivision to the west of the shopping center site do not run through to Travis Road. Since the developer of the residential subdivision is also the developer of the commercial district, we believe it is his responsibility to be equally fair to the owners of the residential properties and to himself as owner of the commercial frontage. Furthermore, additional depth, in this instance, is more desirable than additional width. For these reasons we believe that the shopping center site is also restricted along its northern line.

An appraiser for the institution financing the shopping center development placed a land value of \$240 per foot on the frontage along Travis Road, an average of 80¢ per square foot for the entire site. There have been no sales of commercial land in the vicinity that may be considered as comparable to this site. However, residential sales on Travis Road and in the adjacent subdivisions have been made at \$35 per front foot for lots having a depth of 100 feet. This sales price indicates an average value for residential purposes of 35¢ per square foot. There is little doubt in our mind that the desirable commercial site is worth considerably more than this. In our economic feasibility report on the proposed shopping center, we concluded a value of 50¢ per square foot for the site in its entirety based upon a land residual approach to value. This conclusion was based upon an analysis of the minimum rentals that should be charged for various types of stores that we recommended for the center and the probable rental that would be secured on the basis of the percentage leases recommended.

The owners of the property have secured two of the major tenants and a number of minor tenants on the basis of long-term leases recommended by our initial report, which would indicate the accuracy of the value we concluded. We believe that the owners will have little difficulty in securing the required number of tenants to fully utilize the limited amount of space within the shopping center.

One of the major oil companies desires a site for a service station within the shopping center and is willing to pay a rental that would justify a value of \$1.65 per square foot for the land involved. This site would contain 14,950 square feet, which is less than the portion required by the State Highway Department. Because of the taking of the right-of-way frontage, the question arises whether the service station location might not require shifting to the site north of the proposed medical center. However, it is doubtful if a service station could possibly do the anticipated volume of business at that location. In fact, there is some doubt as to whether a major oil company would go into this area if it could not be part and parcel of the shopping center site. In this event, the shopping center would suffer the loss of its most profitable tenant, as a service station generally can afford to pay a higher land rental in proportion to the land utilized than most retail uses can.

Based upon our initial survey, approximately 15% of the land was to be reserved for expansion purposes. The taking of 21,000 square feet, or 10% of the total land area within the shopping center site, reduces the expansion area to but 5% of the total area, which, in our opinion, is relatively undesirable. Because of the anticipated reasonable use of 95% of the land involved in the shopping center, we believe that the value of the land involved in the transfer should be the average price per square foot ascribed to the entire center of 50¢ per square foot. We would like to point out that we are not ascribing a high value of the front 30 feet of the land based upon generally accepted depth tables because the remainder will still have its frontage unaffected by the taking. Conversely, we are not considering it as the value of the rear 30 feet which would be indicated on the depth table premise, as Lincoln Avenue frontage is also of value because it affords access, water and sewers. We are not ascribing damages other than the value of the land being taken, because additional land is held by the owners immediately north of the subject site and across Missouri Street. Consequently, the value placed on this part containing 21,000 square feet is \$10,500.

Part B is presently held by the owners of the subject property. It is in a proposed street that we recommend opening and would be dedicated without cost to the city. Consequently, no compensation should be expected by the owners.

Part C is a portion of the site set aside for a medical center. It was our recommendation that the medical center site be established and that no office space be permitted in the shopping center because of the space limitations of the shopping center site. Since the land to the west and to the north of this site is undeveloped, the loss in area by the taking of part C is relatively insignificant. The same may be said about part D. It is our opinion that the tract concerned will not

be required completely for commercial expansion for many years to come, but should be held for that purpose until such time as the parcels of the other land holdings are completely subdivided, built up and sold. At that time it will be obvious whether this tract should be developed commercially or residentially. Because of its level condition and the fact that water and sewers are available along Travis Road, we have considered its present value as that of residential land. The frontage that is being taken has a higher value than rear portions because of its access to the highway. In other words, lots could be sold off along the highway at \$35 per front foot, or 35¢ per square foot, without subdivision costs. However, we have ascribed but \$1,500 per acre to this land because the remaining land will still have the access benefits. However, since we are giving the State the benefit of the acreage value, we believe that the owners should be entitled to the additional costs that will be entailed in extending the lead-ins from the sewers and water mains to the individual lots that could be built along the frontage today.

In our opinion, 10 lead-ins would be required to serve the lots fronting on Travis Road located in part D, while one lead-in would be required to serve the medical center in which part C is situated. The lead-ins for the residential lots are based on 50-foot lots, the average residential lot in the general area. Eleven lead-ins of 30 feet each would result in 330 feet of additional trenching, sewer pipes and water pipes. Since this work would be done on a mass basis by the developers of this subdivision, we have estimated the cost on a wholesale basis. These costs amount to \$2 per lineal foot for the sewers and \$1.75 per foot for the water lines, or a total of \$3.75 per foot. The application of this unit cost to the 330 feet of lines would result in additional development costs of \$1,237.50, which we believe to be a compensable damage. This damage should be added to the value of the land taken, which is computed as follows:

Part C	4,500 sq. ft.	
Part D	15,000 sq. ft.	
Total area	19,500 sq. ft., or .45 acre	
	@ \$1,500 per acre	
Land value, parts C and D	\$ 675	

The total value of the land taken and the damages result in total compensation to the owner of \$1,912.50 for parts C and D.

Part E is not served by water or sewers at the present time and the taking of its frontage would be merely at the average value of potential residential land not having water or sewers. This value was estimated at \$800 per acre. Consequently, the 24,000 square feet contained in part E would be worth \$800 per acre times its area of .55 acre, or \$440.

In conclusion, and to make a long story short, the fair compensable award may be outlined as follows:

Part A	21,000 sq. ft.	@ \$ 0.50 per sq. ft.	\$10,500.00
Part B	1,500 sq. ft.	-	-
Parts C and D	.45 acre	@ \$1,500.00 per acre	675.00
Parts C and D damages			1,237.50
Part E	.55 acre	@ \$ 800.00 per acre	440.00
Architectural and engineering fees (replatting area and altering plans)			1,000.00
Appraisal fee			500.00
Total fair compensable award			\$14,352.50

No doubt the careful reader of this bulletin would notice the tremendous spread in values ascribed for parts A, and C and D. He would notice that the 50¢ per square foot value of part A would result in an acreage value of \$21,780, while the acreage value of parts C and D was \$1,500 per acre. The reason for this great spread is that part A is choice land, and is ready in its entirety for use without any further development costs, as it has street frontage on three sides, and water and sewer lines along two parallel sides. On the other hand, parts C and D are portions of large undeveloped tracts. As a result, the taking of frontage from part A constitutes the taking of a completely developed parcel of ground, while the taking of frontage from parts C and D merely moves their effective frontage back and is the equivalent of taking cheap land situated to the rear and not having any frontage. Part A is within the city limits of the community and is afforded municipal benefits. Furthermore, part A is surrounded in three directions by potential purchasers, while parts C and D are undeveloped in three directions. Consequently, they are not as desirable for shopping center purposes.

We would like to reiterate that the values ascribed in this bulletin have been changed from the actual appraisal in order to keep the original appraisal data confidential.

Wm J Randall

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